

ANNUAL REPORT
FOR THE
YEAR ENDING
MARCH 31, 1956



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FIRST NATIONAL STORES

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FIRST NATIONAL STORES INC.

OFFICERS

ADRIAN O'KEEFFE, *President*

RALPH F. BURKARD, *Treasurer*

BYRON M. FLEMMING, *Vice-President*

JOHN L. MACNEIL, *Vice-President*

EDMUND J. MURPHY, *Vice-President*

JOHN E. ELWELL, *Clerk*

DIRECTORS

RALPH F. BURKARD

BYRON M. FLEMMING

SAMUEL JOSELOFF

DANIEL J. LYNE

JOHN L. MACNEIL

EDMUND J. MURPHY

JAMES J. O'HARE

ADRIAN O'KEEFFE

BERNARD M. O'KEEFFE

EXECUTIVE COMMITTEE

RALPH F. BURKARD

JOHN L. MACNEIL

ADRIAN O'KEEFFE



This new First National Store now serves the growing population of Newtonville, Mass., one of Boston's finest suburbs.

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

Somerville, Massachusetts, June 4, 1956

Sales for the fiscal year ending March 31, 1956 were \$491,667,908 as compared with \$470,628,572 for the previous 53-week fiscal year. After adjusting the prior year's sales to a 52-week basis, our dollar sales for the current year show an increase of \$29,919,121, or 6.48%. Food prices at retail for the fiscal year averaged about the same as for the prior year — indicating a similar gain of 6.48% in tonnage sales.

Earnings, after flood losses and Lifo inventory adjustment, showed an increase and amounted to \$8,071,326, or \$4.93 per share. In the previous year the per share earnings were \$4.86 for 53 weeks.

Dividends totaling \$2.40 per share for the year were paid on the common stock outstanding — four quarterly dividends of 50¢ per share and a special year-end dividend of 40¢ per share.

A condensed summary of our operations follows:

	<i>For the Fiscal Year Ending</i>	
	<i>March 31, 1956</i>	<i>April 2, 1955</i>
	<i>(52 weeks)</i>	<i>(53 weeks)</i>
Retail store sales	\$491,667,908	\$470,628,572
Net earnings after taxes	\$ 8,071,326	\$ 7,968,619
Per share of common stock —		
After taxes and before Lifo adjustment and flood losses	\$5.17	\$4.57
Lifo inventory adjustment	-.03	+.29
Flood losses	<u>-.21</u>	<u>0</u>
Total	<u>\$4.93</u>	<u>\$4.86</u>
Net working capital (current assets less current liabilities)	\$ 15,149,600	\$ 15,336,446
Fixed or property assets (less depreciation)	39,728,331	35,931,588
Earnings employed in the business (appropriated and unappropriated)	53,135,847	48,993,652
Stockholders' equity (net worth)	59,872,126	55,729,931

On the center pages are graphic charts showing the results of our operations for the past thirty years. The per share earnings chart gives effect, for all years, to the 2 for 1 stock split in 1951.

Lexington Green, where the "embattled farmer" made his famous stand in Revolutionary Days, is just a stroll away from this strikingly modern food store.



Capital expenditures have continued at a high level and amounted to \$10,130,000 for the fiscal year. These expenditures were financed from the year's provision for depreciation and from retained earnings. The company had no loans outstanding at the year-end. Working capital was practically unchanged from the prior year-end and amounted to \$15,149,600. Net worth increased \$4,142,195 to a total of \$59,872,126 at the close of the year.

Of the accelerated depreciation of \$1,299,539 shown on the statement of earnings, \$630,042 is deductible for tax purposes, and the resultant tax saving included in our earnings is equivalent to 20¢ per share of our stock. The total of all our direct taxes for the fiscal year was \$13,335,042, or \$8.14 for each share of stock and 62% of earnings before taxes.

In August 1955 the company suffered flood damage of \$723,226. About 50 of our stores were affected and a few were a total loss. While the amount of the loss was substantial, it is low in comparison with what it might have been had not our organization performed effectively in minimizing our losses. Our properties were quickly restored, making possible the resumption of normal operations.

The addition to our Executive offices at Somerville, Massachusetts, has been completed. We now have adequate space for our administrative staff.

Of the 331 supermarkets in operation at the year-end, 44 were either newly opened or completely remodeled or enlarged during the year. We have continued the policy of keeping our markets abreast of today's modern standards in appearance, size and equipment. In the past seven years 308 of our existing 331 supermarkets have either been opened as new stores or completely remodeled or enlarged. At the close of the year we had a total of 661 stores in operation, a net decline of 41 from the prior year. We are continuing the process of closing older and smaller stores as we proceed with the development of large modern supermarkets. Fifty-eight stores were closed during the year. Twenty-five new supermarkets are planned for the coming fiscal year. The emphasis in this program will be on larger stores with spacious parking areas.

Competition in food retailing continues strong. Our company has greatly increased its advertising and merchandising efforts and has continued to adhere to its established policy of offering high quality merchandise to consumers at the lowest possible prices.

Our organization now numbers over 15,000 men and women. The continued good performance of our entire family of First National people is greatly appreciated.

ADRIAN O'KEEFFE,
President

ANNUAL MEETING — PROXIES

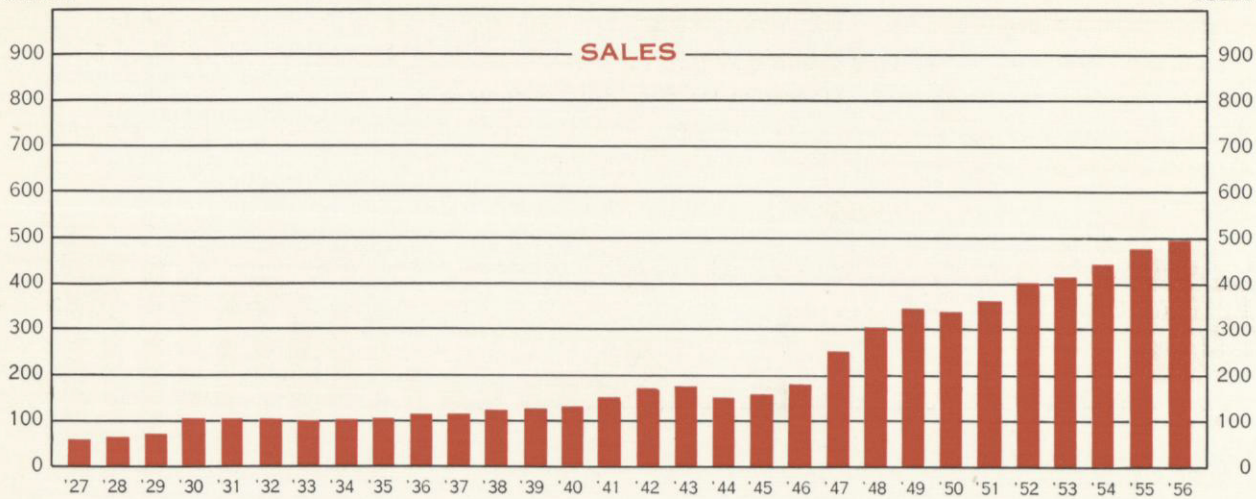
A notice of the annual meeting of stockholders, proxy statement and proxy accompany this report. Stockholders ARE REQUESTED TO SIGN THE MANAGEMENT'S AUTHORIZED PROXY AND MAIL PROMPTLY IN THE ENVELOPE PROVIDED. Your immediate attention to this important matter will be greatly appreciated and will save your company considerable time and expense.



Just a short distance from the sea, this new Finast Supermarket was recently completed in the storied old whaling town of New Bedford, Mass.

MILLIONS OF DOLLARS

MILLIONS OF DOLLARS

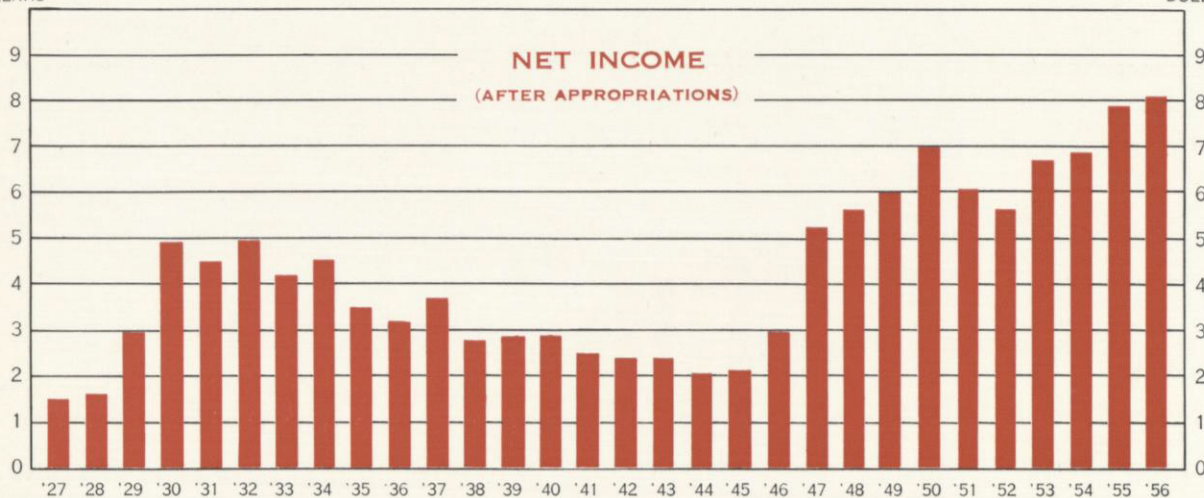


Retail Stores Sales — Fiscal Years

1927	\$59,038,304	1932	\$107,634,383	1937	\$120,682,961	1942	\$174,378,932	1947	\$256,506,910	1952	\$406,773,153
1928	64,445,962	1933	100,892,947	1938	124,294,617	1943	187,839,592	1948	315,915,554	1953	424,521,672
1929	75,884,639	1934	105,812,781	1939	124,222,955	1944	164,924,978	1949	354,444,614	1954	442,180,165
1930	107,635,216	1935	111,323,463	1940	131,041,157	1945	170,236,678	1950	344,171,022	1955	470,628,572
1931	108,196,686	1936	119,575,417	1941	142,680,921	1946	182,131,241	1951	371,853,140	1956	491,667,908

MILLIONS OF DOLLARS

MILLIONS OF DOLLARS



Net Income — Fiscal Years

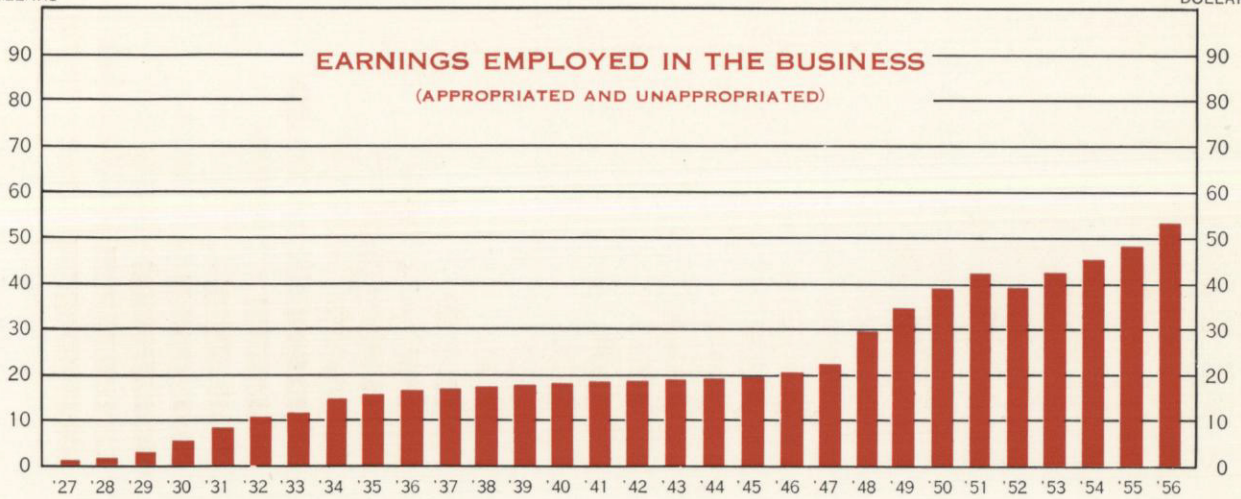
1927	\$1,492,193	1932	\$4,825,611	1937	\$3,647,001	1942	\$2,380,294	1947	\$5,357,235	1952	\$5,571,415
1928	1,593,358	1933	4,220,099	1938	2,705,191	1943	2,465,079	1948	5,629,705	1953	6,742,051
1929	2,904,884	1934	4,394,830	1939	2,774,366	1944	2,235,104	1949	5,905,880	1954	6,830,629
1930	4,773,446	1935	3,433,504	1940	2,739,074	1945	2,294,604	1950	6,997,980	1955	7,968,619
1931	4,479,108	1936	3,163,329	1941	2,508,719	1946	2,885,555	1951	6,134,530	1956	8,071,326

Known as the "Queen City," Manchester, N. H. now enjoys the shopping features of a new First National unit.



MILLIONS OF DOLLARS

MILLIONS OF DOLLARS

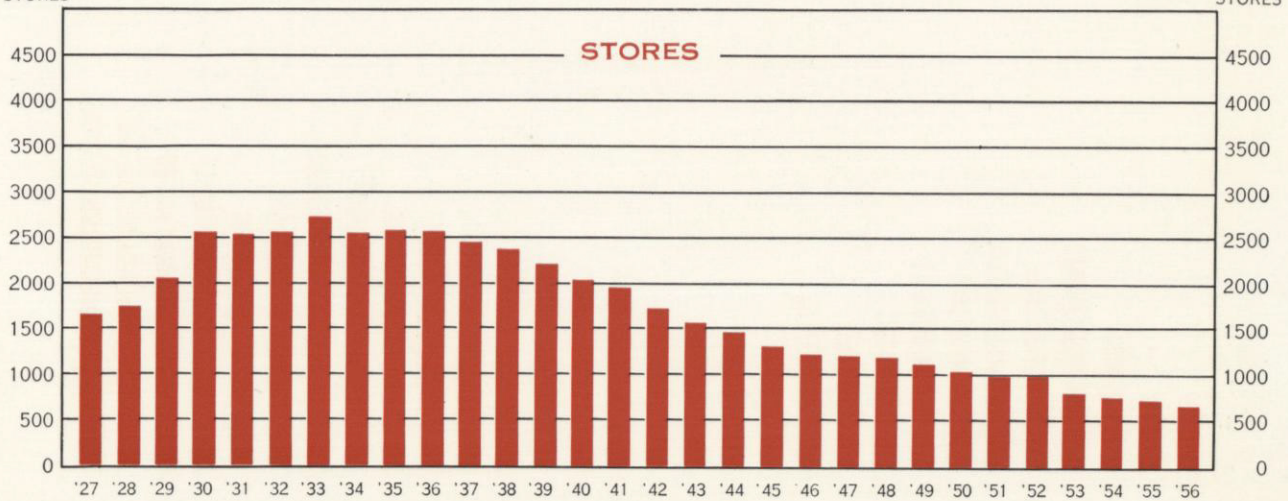


Earnings Employed in the Business — Fiscal Years

1927	\$1,996,375	1932	\$10,816,321	1937	\$16,670,118	1942	\$18,889,476	1947	\$23,235,669	1952	\$39,604,479
1928	2,238,303	1933	12,666,672	1938	16,688,036	1943	19,308,135	1948	29,189,624	1953	41,807,095
1929	3,987,782	1934	14,213,494	1939	17,423,131	1944	19,496,819	1949	34,350,171	1954	44,954,164
1930	6,369,726	1935	15,121,448	1940	18,112,565	1945	19,745,003	1950	38,483,159	1955	48,993,652
1931	8,371,910	1936	16,062,827	1941	18,572,964	1946	20,334,138	1951	41,752,697	1956	53,135,847

STORES

STORES



Stores — Fiscal Years

1927	1681	1932	2546	1937	2473	1942	1748	1947	1201	1952	922
1928	1717	1933	2705	1938	2350	1943	1585	1948	1150	1953	847
1929	2002	1934	2653	1939	2244	1944	1463	1949	1083	1954	761
1930	2549	1935	2623	1940	2137	1945	1340	1950	1033	1955	702
1931	2548	1936	2556	1941	1923	1946	1236	1951	979	1956	661

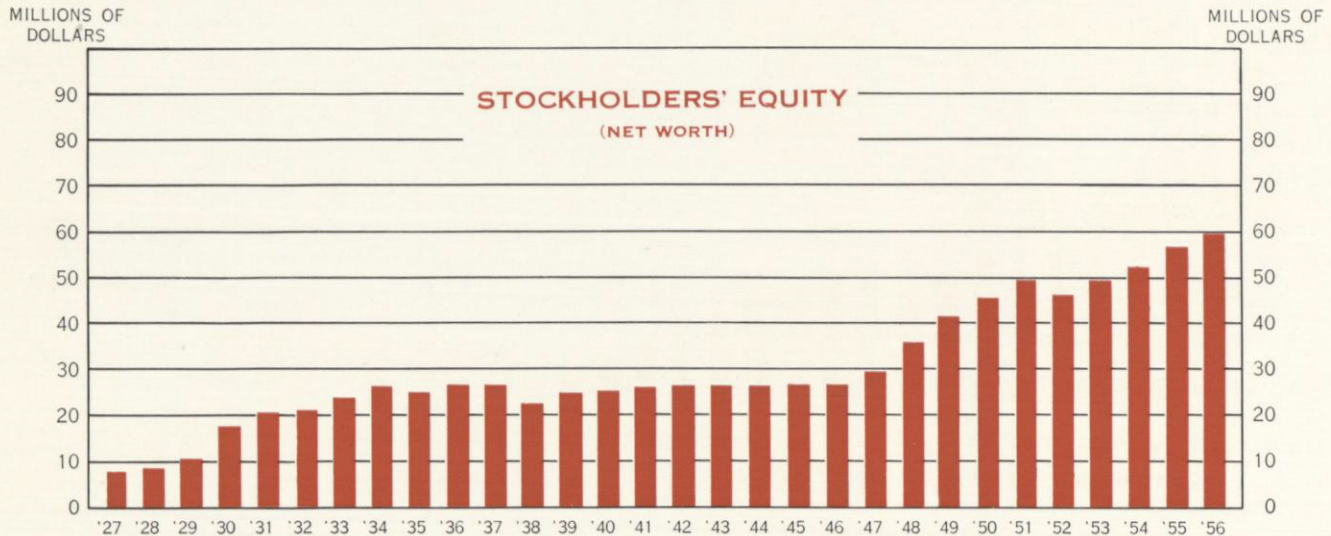


This handsome new supermarket is now a well-known landmark in the town of Agawam, a suburb of Springfield, Mass.



Per Share Common — Fiscal Years

1927	\$0.96	1932	\$2.76	1937	\$2.12	1942	\$1.45	1947	\$3.27	1952	\$3.40
1928	1.04	1933	2.39	1938	1.57	1943	1.51	1948	3.43	1953	4.11
1929	2.04	1934	2.48	1939	1.69	1944	1.36	1949	3.61	1954	4.17
1930	2.69	1935	1.95	1940	1.67	1945	1.40	1950	4.27	1955	4.86
1931	2.52	1936	1.82	1941	1.53	1946	1.76	1951	3.74	1956	4.93



Stockholders' Equity — Fiscal Years

1927	\$8,723,782	1932	\$22,793,743	1937	\$26,369,140	1942	\$25,625,755	1947	\$29,971,948	1952	\$46,340,758
1928	8,965,710	1933	24,644,049	1938	23,746,089	1943	26,044,414	1948	35,925,903	1953	48,543,374
1929	11,724,410	1934	26,190,916	1939	24,216,168	1944	26,233,098	1949	41,086,450	1954	51,690,443
1930	18,347,148	1935	24,820,470	1940	24,874,883	1945	26,481,282	1950	45,219,438	1955	55,729,931
1931	20,349,333	1936	25,761,849	1941	25,293,286	1946	27,070,417	1951	48,488,976	1956	59,872,126

This is one of several First National supermarkets in Springfield, Mass.
Each draws from a different section of this thriving city.



FIRST NATIONAL STORES INC.

BALANCE SHEET

ASSETS

	MARCH 31, 1956	APRIL 2, 1955
CURRENT ASSETS:		
Cash	\$13,442,432	\$15,737,849
Accounts receivable	1,673,730	1,193,196
Inventories, at cost (on last-in first-out basis) which is below market (Note 1)	27,459,460	25,225,209
Total current assets	\$42,575,622	\$42,156,254
 FIXED ASSETS, at cost, less fully-depreciated assets:		
Land	\$ 5,137,289	\$ 4,250,550
Buildings owned	25,752,631	22,017,570
Store fixtures, leased property improvements, machinery and equipment	36,018,627	33,052,062
Automotive equipment	2,236,154	1,959,334
	\$69,144,701	\$61,279,516
<i>Less — Depreciation</i>	29,416,370	25,347,928
	\$39,728,331	\$35,931,588
 OTHER ASSETS AND DEFERRED CHARGES:		
Claims for refunds of federal taxes on income (Note 1)	\$ 2,950,000	\$ 2,950,000
Investment in wholly-owned subsidiary companies — at cost (represented by underlying net assets of \$1,022,850 in 1956 and \$1,007,980 in 1955)	250,833	250,833
Prepaid insurance and other deferred expenses	2,480,107	2,152,548
Miscellaneous	60,911	42,417
	\$ 5,741,851	\$ 5,395,798
	\$88,045,804	\$83,483,640



All new First National supermarkets, like this one in Manchester, Conn., are designed both to render excellent food service and to conform, tastefully, to community architecture and planning.

FIRST NATIONAL STORES INC.

BALANCE SHEET

LIABILITIES

	MARCH 31, 1956	APRIL 2, 1955
CURRENT LIABILITIES:		
Accounts payable	\$13,044,512	\$11,459,778
Owing to subsidiary companies	197,639	219,536
Accrued local and state taxes and other expenses	5,100,244	5,046,619
Federal taxes on income	9,083,627	10,093,875
Total current liabilities	\$27,426,022	\$26,819,808
RESERVES:		
For past service costs under retirement annuity plan	\$ 607,098	\$ 769,351
Miscellaneous operating reserves	140,558	164,550
	\$ 747,656	\$ 933,901
STOCKHOLDERS' EQUITY:		
Common stock:		
Authorized — 2,000,000 shares without par value		
Issued — 1,655,268 shares	\$ 6,977,422	\$ 6,977,422
Earnings employed in the business:		
Appropriated for contingencies	\$ 744,258	\$ 744,258
Unappropriated, per accompanying statement	52,391,589	48,249,394
	\$53,135,847	\$48,993,652
Together	\$60,113,269	\$55,971,074
Deduct — Common stock held in treasury — 18,114 shares (cost \$556,719), carried at	241,143	241,143
Total stockholders' equity	\$59,872,126	\$55,729,931
	\$88,045,804	\$83,483,640

ACCOUNTANTS' OPINION

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.

In our opinion, the accompanying balance sheet and related statements of earnings and earnings employed in the business, with the notes thereto, present fairly the financial position of First National Stores Inc. at March 31, 1956 and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Boston, Massachusetts
May 18, 1956

PRICE WATERHOUSE & CO.

The new unit in Wallingford, Conn.



FIRST NATIONAL STORES INC. STATEMENT OF EARNINGS

	FISCAL YEAR ENDED	
	MARCH 31, 1956 (52 weeks)	APRIL 2, 1955 (53 weeks)
Sales and revenues:		
Retail store sales	\$491,667,908	\$470,628,572
Dividends received from subsidiary companies (Note 2)	57,000	46,500
Other income	526	701
	\$491,725,434	\$470,675,773
Costs and expenses:		
Cost of sales, expenses, etc. (exclusive of depreciation)	\$467,455,294	\$447,660,360
Provision for depreciation of fixed assets (including accelerated depreciation of \$1,299,539 in 1956 and \$1,215,207 in 1955)	5,920,741	5,409,860
Interest expense	92,605	71,878
Net loss on disposal of fixed assets	72,242	85,056
Losses from floods	723,226	—
Provision for federal taxes on income (Note 3)	9,390,000	9,480,000
	\$483,654,108	\$462,707,154
Net earnings for the year	\$ 8,071,326	\$ 7,968,619

STATEMENT OF EARNINGS EMPLOYED IN THE BUSINESS (UNAPPROPRIATED)

FISCAL YEAR ENDED MARCH 31, 1956

Balance, April 2, 1955	\$48,249,394
Net earnings for the year, per accompanying statement	8,071,326
	\$56,320,720
Cash dividends paid — \$2.40 per share	3,929,131
Balance, March 31, 1956	\$52,391,589

NOTES TO FINANCIAL STATEMENTS

NOTE 1: The use and method of application of the last-in first-out method of inventory valuation for each fiscal year since its adoption in 1941 are subject to review and acceptance by the Internal Revenue Service. As a result of amendments in the method of application the company has claims for refund of federal income taxes in amount greater than the amount of \$2,950,000 recorded on the books. The claims have been examined by the Internal Revenue Service and a proposed settlement on the basis of refunds aggregating approximately \$4,000,000 plus interest has been agreed to by the company subject to approval by the Commissioner of Internal Revenue. Pending such approval no adjustment has been made in the amount at which the claims are carried on the books.

NOTE 2: The net earnings of the subsidiary companies (all wholly owned and not consolidated) aggregated \$71,869 for the fiscal year ended March 31, 1956 and \$75,343 for the previous year.

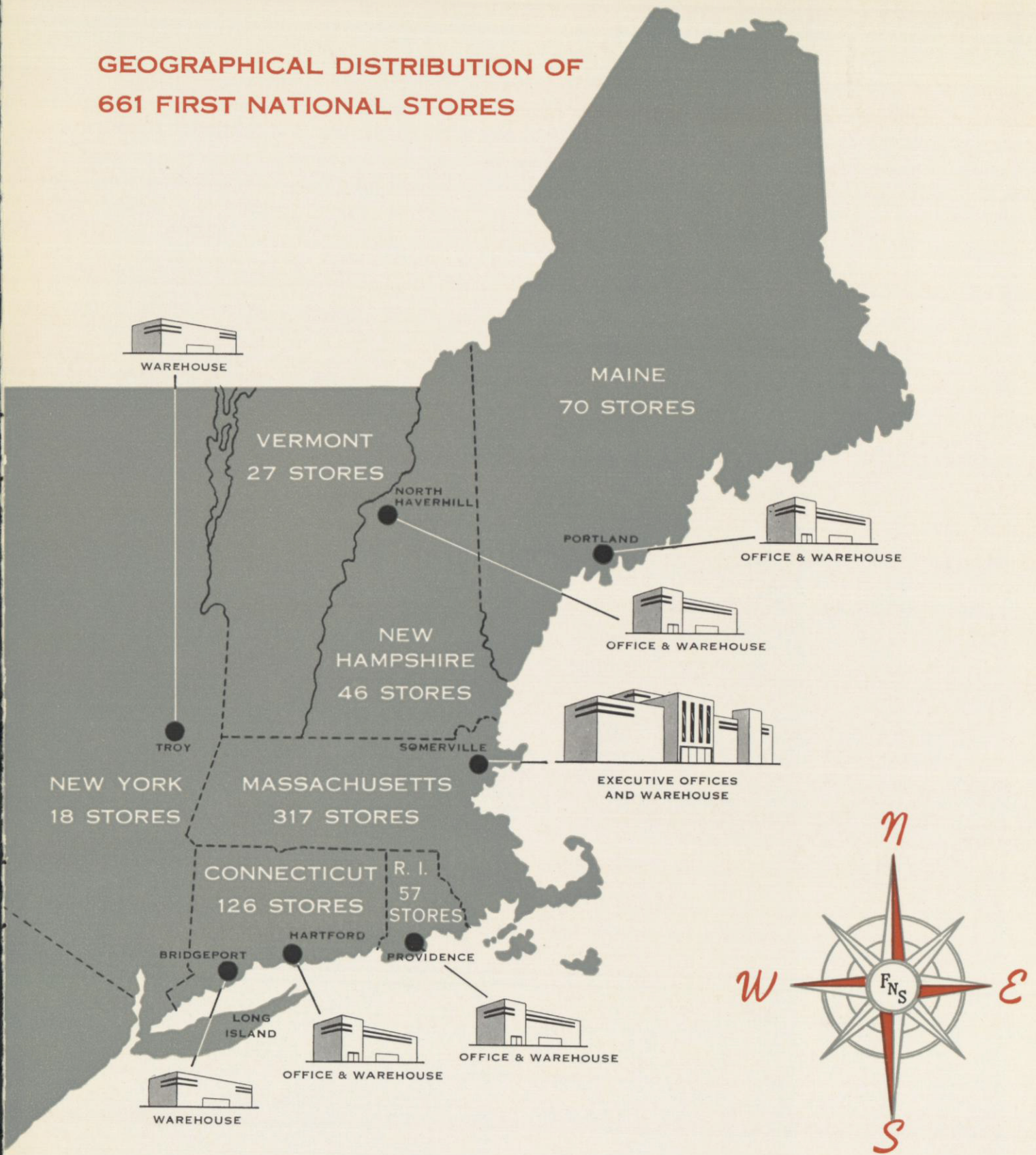
NOTE 3: The company has continued for income tax purposes the sum of the years-digits method of computing depreciation on fixed asset additions made subsequent to March 27, 1954, as permitted under the 1954 Internal Revenue Code. The federal tax provision for the 1956 fiscal year computed on this basis is approximately \$325,000 less, and the reported net earnings \$325,000 more, than would have been the case except for this change of policy. The comparable difference for 1955 was \$150,000. Depreciation charges included in the 1956 statement of earnings have been computed on the same basis as heretofore.

NOTE 4: At March 31, 1956 the company was obligated under 186 leases expiring after March 31, 1959. The aggregate of the minimum annual rentals under these leases is \$1,951,424 and the aggregate amount of rentals charged to earnings for the 1956 fiscal year under all leases was \$3,210,072.



Like many other First National Stores, this one in Meriden, Conn. has recently been completely remodeled and enlarged to make it new inside and out.

GEOGRAPHICAL DISTRIBUTION OF 661 FIRST NATIONAL STORES



TRANSFER AGENTS:

THE FIRST NATIONAL BANK OF BOSTON, BOSTON
CHEMICAL CORN EXCHANGE BANK, NEW YORK

REGISTRARS:

SECOND BANK-STATE STREET TRUST CO., BOSTON
BANKERS TRUST CO., NEW YORK, NEW YORK

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